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April 1, 1998

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Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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Re: CC Docket No. 97-211
Joint Applications of WorldCom, Inc. and MCI Communications Corporation

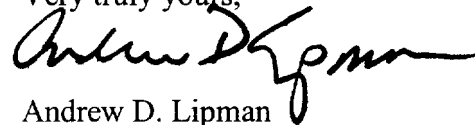
Dear Secretary Salas:

Transmitted herewith on behalf of WorldCom, Inc. and MCI Communications Corporation please find an original plus twelve (12) copies of the "Errata to Second Joint Reply of WorldCom, Inc. and MCI Communications Corporation" to be filed in the above-referenced proceeding. Twelve (12) copies of the complete Second Joint Reply, as modified by the Errata, are also included.

For the Commission's convenience, I have also enclosed a copy of the revised pleading on a 3.5 inch diskette formatted in an IBM-compatible format using WordPerfect 5.1 for Windows software in a "read only" mode. This diskette consolidates into a single file the three subparts of the text of the Second Joint Reply that were filed on diskette on March 20, 1998. Please replace the files that are now accessible through the FCC's Internet site with this revised pleading.

I would appreciate it if you would please date-stamp the enclosed extra copy of this filing and return it with the messenger to acknowledge receipt by the Commission. If you have any questions regarding this submission, please do not hesitate to contact me.

Very truly yours,


Andrew D. Lipman

Enclosures

cc: All Parties on the Attached Service List

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**Before the
FEDERAL COMMUNICATIONS COMMISSION
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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)
)
Applications of WorldCom, Inc. and)
MCI Communications Corporation for) CC Docket No. 97-211
Transfer of Control of MCI Communications)
Corporation to WorldCom, Inc.)

To: The Commission

**ERRATA TO
SECOND JOINT REPLY
OF WORLDCOM, INC. AND MCI COMMUNICATIONS CORPORATION**

WorldCom, Inc. ("WorldCom") and MCI Communications Corporation ("MCI") (collectively, the "Applicants"), by their undersigned counsel, hereby submit this Errata to the Second Joint Reply of WorldCom and MCI filed on March 20, 1998. This filing provides several pages that were inadvertently omitted from the paper copy filing¹ and also corrects one typographical error. The Applicants note that although these four pages were inadvertently omitted from the paper filing, they were timely submitted to the Commission on computer diskette included with the original filing, and therefore have been available to the parties and the public from the FCC's website since the filing was posted by the Commission. Moreover, since this filing was a Joint Reply, to which no further responses have been authorized by the Commission, no parties have been adversely affected by the short delay in receipt of these missing pages. A copy of this Errata is being served on all parties who received service copies of the filing.

¹ The omitted pages have been renumbered as pages 44.1 through 44.4 so that they can be inserted before page 45 of the March 20, 1998 filing, and the footnotes have also been renumbered accordingly as footnotes 64.1 through 64.6.

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Dated: April 1, 1998

Respectfully submitted,

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year?"^{64.1}

BellSouth postulates that the merger is likely to reduce competition for retail customers, because the merged company might spin off MCI's residential customer base.^{64.2} *BellSouth Comments* at 10-11. MCI WorldCom has no plans to do this, and it would make no economic sense.

As explained in the Joint Reply, one of the principal reasons for the merger is that the combined company will have an enhanced ability to offer consumers a total package of services: local, long distance, wireless, international and Internet. Many residential customers prefer buying all their telecommunications services from a single company and receiving a single bill. MCI's base of millions of residential customers present the merged company with an opportunity to offer these customers a total package, including local and long distance services, as fast as regulatory and economic conditions permit.^{64.3}

In addition, residential customers offer the opportunity of balancing network use. As Tim Price, MCI's President and CEO-designate of MCI WorldCom's U.S. telecommunications business, has explained, "you build capacity to handle the needs of your business customers during the work

^{64.1} Affidavit of Marius Schwartz on behalf of the U.S. Department of Justice, Exhibit 1 to Evaluation of the United States Department of Justice, Application of BellSouth Corporation, BellSouth Telecommunications, Inc. and BellSouth Long Distance, Inc., for Provision of In-Region, InterLATA Services in South Carolina, FCC Docket CC 97-208, at ¶ 94.

^{64.2} Why a spin-off of residential customers should be of concern to a potential competitor such as BellSouth is not clear.

^{64.3} The commitment of both companies to the residential market following the merger was affirmed by a letter to Chairman Kennard on January 26, 1998. *See* Attachment A.

week in the daytime, and you have to start recruiting residential customers who use the network mostly at night and on weekends. That's the only way you can get efficient use of your capacity."^{64.4}

The commitment of MCI WorldCom to serving residential customers was recently confirmed by the announcement on March 3, 1998 of a joint venture between MCI and Telefonica de Espana, SA, to be managed by MCI, to provide customized products, promotions, marketing and customer service programs targeting the US Hispanic consumer and small business markets. The Hispanic market in the US is the fastest growing demographic segment, estimated at over 29 million people and representing approximately 8 percent of the total US long distance market.^{64.5}

Moreover, if MCI WorldCom were to reverse course from its express intentions, and engage in a course of action detrimental to its business interests by spinning off its residential customers, that transaction could only *increase* the number of competitors in the market and *decrease* the HHI for interexchange services. BellSouth maintains that the transaction would be anticompetitive only by assuming that MCI WorldCom would simply stop providing service to residential customers, who would then, BellSouth curiously argues, "end up at the other residential long distance providers in proportion to current market shares." *BellSouth Petition* at 10-11. That assumption makes no sense. If MCI WorldCom were to spin off residential customers as a separate business (which would be the only rational way to carry out BellSouth's suggestion), the transaction would increase the number

^{64.4} J. Van, "MCI Deal May Cut Consumer Phone Bills \$37 Billion," *Chicago Tribune*, Nov. 11, 1997.

^{64.5} Stephanie N. Mehta, "WorldCom Inc. and MCI Set Telefonica Pacts," *Wall Street Journal* March 10, 1998 at B8.

of competitors. Competition would decrease only if the spun-off company were then purchased by AT&T -- an unlikely scenario in any event and a transaction the Commission would have to approve.

See Hall Decl. ¶¶ 100, 101.

E. Stock market reaction to merger.

Finally, GTE seeks to attack the merger based on the oscillations and vagaries of the stock market. But the facts are not consistent with GTE's claim that the stock markets are expecting the merger to be anti-competitive. As Drs. Carlton and Sider demonstrate, AT&T's stock price *fell* in the two days following announcement of the proposed merger (which is inconsistent with GTE's claim that the industry expected the merger to protect the existing industry leaders). Second Carlton/Sider Decl. ¶ 74. Subsequently, AT&T's price rose relative to the market, but that followed its announcement of a new CEO and, subsequently, reports of a cost-cutting program. *Id.* A recent analysis by Salomon Smith Barney Research (WorldCom's investment bankers) recommends purchase of MCI WorldCom stock because the merged company will have a "diverse set of strategic assets" enabling it to provide a broad range of reliable and high-quality service, to avoid access and termination charges, and to achieve SG&A savings which the analyst believes WorldCom may have understated.^{64.6} Salomon Smith Barney is basing its "buy" recommendation on what it calls "very hard and identifiable synergies" -- not the monopoly profits that GTE wrongly suggests.

- - - - -

^{64.6} Jack B. Grubman, Salomon Smith Barney, "WorldCom--Reinitiating Coverage with 1M & 12 Mo. Price Target of \$60."

Second Joint Reply of WorldCom and MCI
Errata

In sum, analysis of the *Bell Atlantic/NYNEX* and *BT/MCI* factors confirms the points made in the Joint Reply. The long-distance market is competitive nationwide for both business customers and "mass market" residential customers. The largest carriers face competition from a rapidly growing segment of "other" competitors. And several additional nationwide fiber networks, with competitively significant market coverage, will shortly be complete and operational. The market is rapidly becoming much more competitive than it was in 1995 when AT&T's market share was held by the Commission to be non-dominant.

In these circumstances, the allegations of an anticompetitive effect in the long-distance market are not a basis for foregoing the substantial benefits that this merger will bring, both in increased efficiency in the long-distance market itself, as well as in creating for the first time a strong competitor ready to pose a serious challenge to GTE's and the Bell Companies' present near-total dominance of local exchange markets.

ERRATA

Correction to the Second Joint Reply filed March 20, 1998
(the change from the original version is indicated with italics)

Page 6, footnote 6:
Change footnote 6 to read:

"Nor did the Commission find that there was any reason to break the local exchange and exchange *access* markets into route-specific markets, given that each route faced the same level of competition. *Bell Atlantic/NYNEX*, at ¶ 51."

CERTIFICATE OF SERVICE

I, Michael W. Fleming, hereby certify that on April 1, 1998 a copy of the foregoing
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